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TAGS: [ECON](#) [EINV](#) [ETRD](#) [EIND](#) [PGOV](#) [VE](#)

SUBJECT: VENEZUELAN CEMENT PRODUCTION DROPPING FOLLOWING
NATIONALIZATION

REF: A. CARACAS 1200

[1](#)B. CARACAS 624

Classified By: Economic Counselor Darnall Steuart for reasons 1.4
(b) and (d).

[1](#)1. (C) SUMMARY: Mexican Ambassador to Venezuela Mario Chacon informed Econoffs that the Bolivarian Republic of Venezuela (BRV) has not budged from its initial, USD 500 million offer for Mexico's Cemex that, in effect, represents an expropriation of Cemex assets in Venezuela. Chacon believes the BRV will accuse Cemex of sabotage if it does not accept the offer and instead pulls out entirely leaving its plants nearly inoperable in the absence of Cemex proprietary operations software. The Ambassador stated he would be prepared to depart the country if Cemex has to resort to international arbitration, which could happen as early as the end of the week of September 29. On September 30, a Holcim Executive reported that industry sources believe Cemex production has dropped by 40 percent since the BRV took over Cemex plants on August 18. END SUMMARY.

BACKGROUND

[1](#)2. (C) In August, the BRV successfully negotiated the purchase price of the Swiss-owned Holcim and French-owned Lafarge cement companies and is scheduled to finalize the sales contracts with the two companies by October 18 with payment to follow in late November or early December. On August 18, after failing to come to an agreement with Mexican-owned Cemex, Venezuelan National Guard troops took over Cemex plants. On August 25, the BRV negotiating team led by government-owned petroleum company PDVSA, resumed talks with Cemex giving the company a new deadline of September 26, which has come and gone without an agreement.

CEMEX NEGOTIATIONS WITH THE BRV GOING NOWHERE

[1](#)3. (C) On September 29, Mexican Ambassador to Venezuela Mario Chacon (strictly protect throughout) informed Econoffs that Cemex had not heard from the PDVSA negotiating team by September 26, adding that the BRV seemed to have paid little attention to its own deadline. While Cemex has dropped its asking price by over 100 million to USD 820 million since negotiations resumed on August 25, Chacon said the BRV failed to reciprocate and has instead refused to budge from its USD 500 million offer made on August 15. In normal negotiations, Chacon said, the parties would agree to split the difference

for a sales price of USD 650 million. Chacon added that Cemex had attempted to sweeten the deal by offering the use of its proprietary software to mold the components of Venezuela's cement industry into one operating unit. Even though Cemex is by far the largest player in the Venezuelan cement market with 52 percent market share, the BRV offered Holcim, which has a much smaller presence in Venezuela, a higher price of USD 552 million. (NOTE: A Holcim Executive told Econoffs in August that the BRV offer of USD 552 million was too low, but the company accepted it as the price Holcim had to pay to avoid international arbitration and keep its foot in the door in Venezuela. See refs A and B. END NOTE.)

14. (C) Chacon emphasized that, if Cemex cannot reach an agreement with the BRV this week, the company will begin international arbitration proceedings as early as October 3, and will pull its software as well as the few remaining Cemex-paid staff that currently manage Venezuelan operations.

He added that every aspect of Cemex operations is coordinated by Cemex proprietary software and the BRV will not be able to run the plants as currently configured without the software. The Ambassador speculated the BRV will try to get Holcim to replace Cemex operating software with a Holcim system, but that, even if Holcim agrees, this would take time and would be costly. Chacon suspects that if Cemex pulls its staff and software, the BRV would accuse Cemex of sabotaging its plants. Ambassador Chacon said he has recommended to the GOM that it respond to any accusation of sabotage by pulling him from Venezuela.

15. (C) Econoff told Chacon that other sources have indicated that the BRV is highly motivated to maintain cement

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production at current levels prior to the November elections, which makes it curious that the BRV has adopted such a hard line with Cemex. The Ambassador explained the situation by saying that as opposed to previous nationalizations, PDVSA is currently experiencing some genuine financial constraints. He alluded to the drop in the price of oil and numerous PDVSA commitments to other vote generating projects in advance of Venezuela's November elections. Chacon believes the BRV will maintain a hard line with Cemex in the hopes Cemex will back down and accept the USD 500 million rather than face years of litigation.

MEXICO FEARS FURTHER NATIONALIZATIONS

16. (C) The Ambassador indicated that he is also concerned about the possible nationalization of Mexican investments in the food industry which was declared of "public utility" in one of the 26 laws passed on July 31. These investments include Coca Cola FEMSA, leading baked goods producer Pan Bimbo, as well as Monaca, Venezuela's second largest milling group.

HOLCIM ON NATIONALIZATION AND FALLING CEMEX PRODUCTION

17. (C) On September 30, Holcim Executive Director for Venezuela Louis Beauchemin (strictly protect throughout) called Econoff to offer an update on Holcim's nationalization process and some insights on Cemex. Beauchemin noted he needed to be careful in his statements given that the BRV, as the new owners of Holcim Venezuela, have a right to monitor calls on company phone lines and he believes they are exercising this right with him in particular. He was willing to say that the BRV, in the case of Holcim, seems highly motivated to avoid international arbitration and has therefore been relatively open to negotiating most sticking points on the final sales contract. Holcim still plans to hold on to a 15 percent stake in the company, although he

said it is becoming increasingly clear that 15 percent will buy Holcim very little control over the company.

¶8. (C) Two weeks ago the PDVSA-led transition team moved Beauchemin out of the executive office suite and into a small, temporary office space. The new occupant of Beauchemin's former office is a current employee of Holcim competitor Lafarge. Beauchemin told Econoffs in a previous conversation that this Lafarge employee was the only person with any kind of experience in the cement industry PDVSA could come up with to participate in the transition team. Beauchemin had requested that he be removed from the team due to the obvious conflict of interest. Beauchemin said the mid-level Lafarge employee now appears to be the newly appointed head of what was Holcim; he has already hired several of his friends.

¶9. (C) Beauchemin stated that beyond taking control of company sedans, credit cards, and the executive office suite, the transition team has made few changes within the company. While the Venezuelan heads of many of Holcim's departments have indicated they would like to be fired before the sale is finalized (being fired is more advantageous than quitting for severance reasons), most staff will remain on board at least through December. Holcim sales, production and pricing all remain unchanged. Minor alterations, such as a new name and logo, are under development.

¶10. (C) Moving on to discuss Cemex, Beauchemin noted that industry sources believe Cemex production has dropped 40 percent since the BRV took over the Cemex plants. Contrary to its approach to the Holcim take over, the BRV has fired most of Cemex management with only a skeleton crew left to keep things running. He noted that Holcim sales volume has increased to fill part of the void left by Cemex' dropping production but that Holcim is already operating near capacity.

COMMENT

¶11. (C) It seems that Chavez' distaste for the Mexicans is in conflict with his desire to prove he can keep cement companies running at full capacity prior to the November

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elections. It does not appear to concern the BRV in the least that there is a good chance that Cemex will move to international arbitration and Venezuelan relations with Mexico will suffer as a result. Tales of dropping production and growing inefficiency only a few weeks after the BRV nationalization of the industry are very consistent with the results of nationalizations in other sectors such as the electrical, agricultural and telecommunications sectors.
CAULFIELD